24950-11

The Annual Report of the Supermarket Companies

BEST AVAILABLE COPY

FMI®
FOOD MARKETING INSTITUTE

1990-1991 ANNUAL FINANCIAL REVIEW

The Annual Report
Of the
Supermarket Industry

Conducted by
Gerke & Associates, Inc.

For the Research Department
Food Marketing Institute
1750 K Street, N.W.
Washington, DC 20006

Financial data collected by
Williams-Keepers
Certified Public Accountants and Consultants

Price:
FMI Members $15
Nonmembers $30

Copyright © 1991
by Food Marketing Institute
Printed in U.S.A.

The Food Marketing Institute (FMI) is a nonprofit association conducting programs in research, education and public affairs on behalf of its 1,500 members — food retailers and wholesalers and their customers in the United States and around the world. FMI's domestic member companies operate approximately 19,000 retail food stores with a combined annual sales volume of $180 billion — more than half of all grocery sales in the United States. FMI's retail membership is composed of large multi-store chains, small regional firms and independent supermarkets. Its international membership includes 250 members from 60 countries.

CONTENTS

Executive Summary 1

Key Financial Results 2

Key Financial Ratios 3

- *Net Profit Margin*
- *Return on Total Assets*
- *Return on Equity*
- *Asset Turnover*
- *Current Ratio*
- *Quick Ratio*
- *Debt to Equity*
- *Times Interest Earned*

Key Financial Ratios by Company Size 7

- *Net Profit Margin*
- *Return on Total Assets*
- *Return on Equity*

Tax Rates 8

- *Income Taxes*
- *Wage-Based Taxes*

Financial Statements 9

- *Income Statement*
- *Balance Sheet*
- *Consolidated Statement of Cash Flows*
- *Statement of Changes in Stockholder Equity*

Appendix 18

- *Changes in Accounting Rules*
- *Impact of the Tax Reform Act of 1986*
- *The U.S. Economic Environment*
- *Definitions*
- *Methodology*

EXECUTIVE SUMMARY

The supermarket industry picture brightened in 1990-91, even as the industry retained significant debt from the last decade. Improved operating performance boosted net income to 0.96 percent of sales in 1990-91 — well above the record low of 0.71 percent in 1988-89. For the second straight year, growth in operating income outpaced interest expense increases.

Other key financial ratios for 1990-91 improved from the previous year:

- Return on assets increased to 3.75 percent from 3.68 percent
- Return on equity increased to 20.16 percent from 19.55 percent
- Debt to equity declined to 4.02 from 4.10
- Times interest earned increased to 2.16 from 2.08

The current ratio remained nearly constant at 1.16, although the quick ratio (which excludes inventory) dropped to 0.35 from 0.40 in 1989-90.

The balance sheet remained largely unchanged. Some debt shifted from short to long term, and bond financing seemed to gain favor over bank loans.

This is the second year the *Annual Financial Review* (the *Review*) tracked the sources and uses of cash with a Consolidated Statement of Cash Flows. Net income and depreciation provided most of the cash primarily to purchase plant, property and equipment. Some debt was also paid down. Overall, the industry had 6 percent more cash at the end of the fiscal year.

This also marks the second year in which the *Review* presented a Statement of Changes in Stockholder Equity, which provides more insight into the equity side of the balance sheet. Stockholder equity increased 17.3 percent in 1990-91, mainly through net income.

The goal of the *Review* is to promote a better understanding of the economics and financial structure of the supermarket industry. The Food Marketing Institute (FMI) has been tracking the industry's financial performance for 19 years.

Gerke & Associates, Inc., prepared the *Review* for FMI. The economic research firm analyzed information from a mail survey and public financial reports covering 129 companies and 12,583 supermarkets in all, representing $160 billion in sales.

KEY FINANCIAL RESULTS

Industry after-tax income continued to improve in 1990-91, up to 0.96 percent of sales — a slight increase over the previous fiscal year. The increase was propelled by record operating income results — achieved during a time of increased debt. Interest expenses, while at a record level, seem to be leveling off.

Return on equity (ROE) — that is net profit divided by owners' equity — reached a record 20.16 percent. Recent ROE measures can mislead, however, because of substantial changes in the industry's financial structure. During the leveraged buy-outs of the late 1980s, the major publicly traded supermarket companies extensively substituted debt for equity. This drove the equity side of the industry's balance sheet below 20 percent in the last two fiscal years — compared with almost 40 percent in 1985-86. As a result, ROE increases over the recent period are less a reflection of high profits than greatly diminished equity.

Return on Assets (ROA) — net profit divided by the total of both debt and equity — is a broader and truer measure because it is not distorted by substitutions in financing methods. ROA reflects the total capital needed to run a company. This measure gained some ground to 3.75 percent — the highest level in four years. Still, it is below the 5-6 percent levels found as recently as the mid-1980s. By any broad measure of performance, the supermarket industry is still recovering from a period of low profits.

The asset turnover rate for the industry dropped somewhat to 3.91. This could mean that a greater asset base is now necessary to support sales and may be a reflection of increased industry competition.

The current ratio, 1.16, remained almost unchanged for the third straight year, indicating a stable ability to meet current obligations. The quick ratio continued to decline, though, suggesting that supermarket firms are converting the more liquid assets into inventory.

There was some improvement in the key financing ratio of debt to equity. It moderated to 4.02 from 4.10 a year earlier. It remains higher than the ratios during most of the 1980s, however, and confirms a major structural shift in the industry from equity to debt financing.

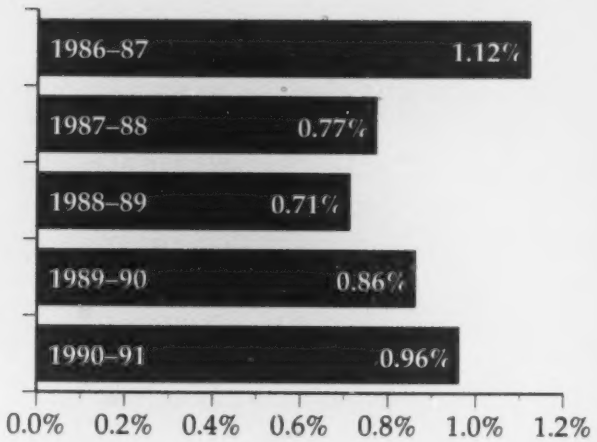
The industry also improved its ability to cover interest payments. Times interest earned rose to 2.16 in 1990-91 compared with 2.08 a year earlier. Obviously, the heavy debt load would have to be reduced before this ratio could return to more typical historical levels of 3 to 5.

The following pages explain and illustrate the industry's financial ratios for the past five fiscal years.

KEY FINANCIAL RATIOS

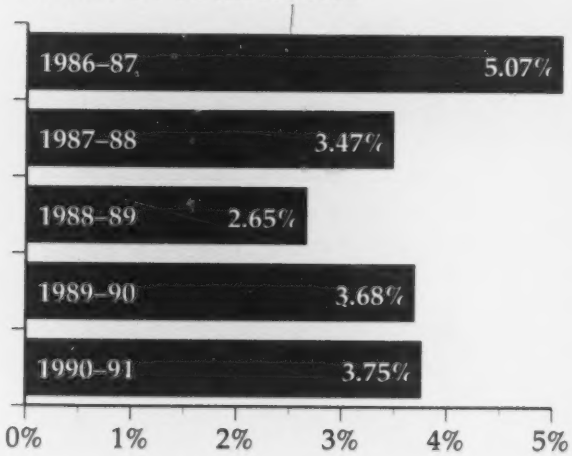
Net profit margin: net income after taxes as a percentage of sales. It measures the portion of the firm's sales dollar left after it pays all expenses, including product costs, and realizes any extraordinary gains or losses.

Net Profit



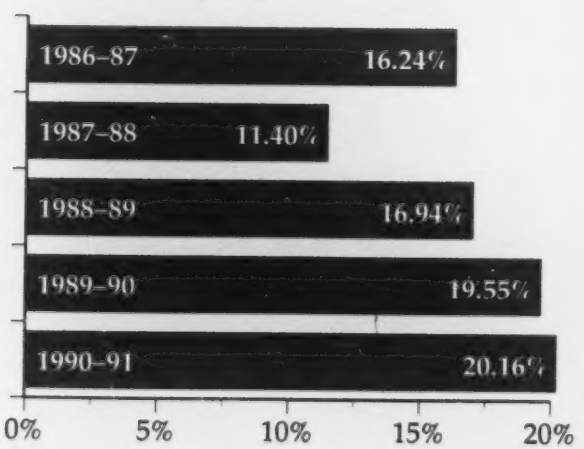
Return on total assets (ROA): net income after taxes as a percentage of total assets. It measures the ability of a company's combined equity capital and debt securities to generate profits. Return on assets reflects the profit generated from the firm's asset base regardless of how it is financed.

Return on Total Assets



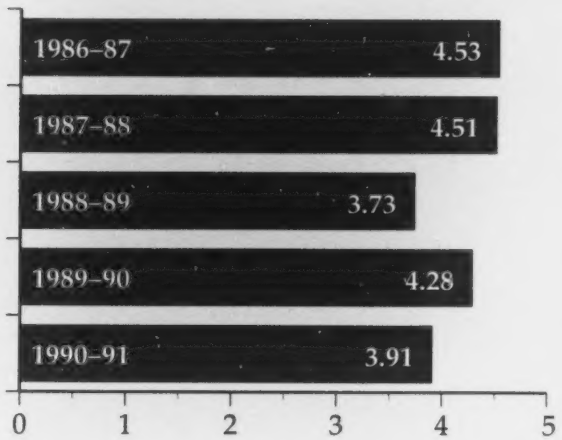
Return on equity (ROE): net income after taxes as a percentage of owner's equity. This relates the earnings of the company specifically to the resources provided by its owners. It reflects how well the firm employs leverage, i.e., funds acquired from outside sources by issuing debt securities.

Return on Equity



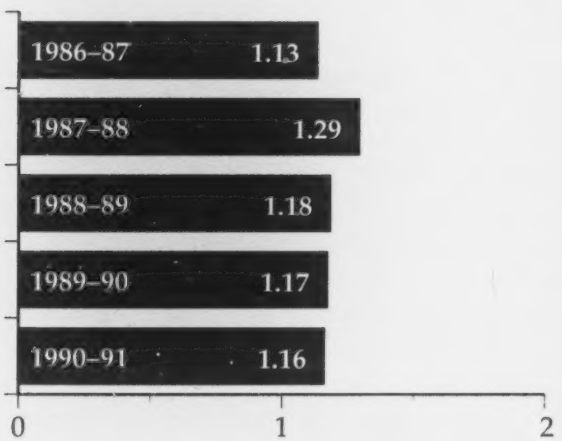
Asset turnover: ratio of total assets into net sales. This measures the firm's ability to use its assets to generate sales.

Asset Turnover



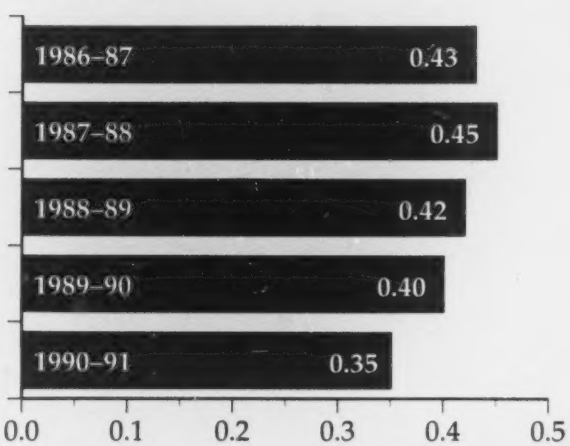
Current ratio: the relationship of current assets to current liabilities. It indicates the ability of a company to meet its current obligations. Included in the computation are such current assets as cash, accounts receivable, total inventory investment in marketable securities, and other current assets. Current liabilities are accounts payable, mortgages, notes and bonds payable in less than one year, income taxes payable, and other current liabilities.

Current Ratio



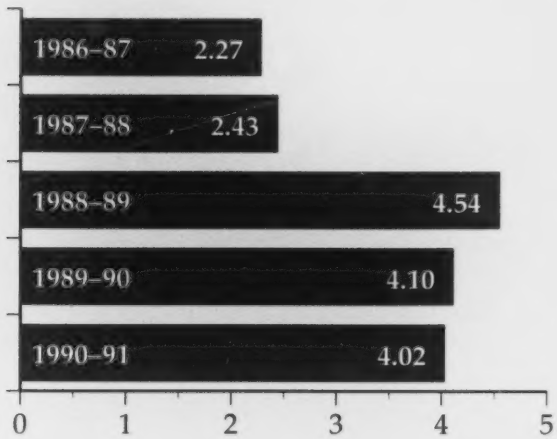
Quick ratio: the relationship between cash, current receivables and marketable securities to current liabilities. It indicates a company's ability to discharge its current obligations without the need to sell off inventories. The calculation is current assets less inventory divided by current liabilities.

Quick Ratio



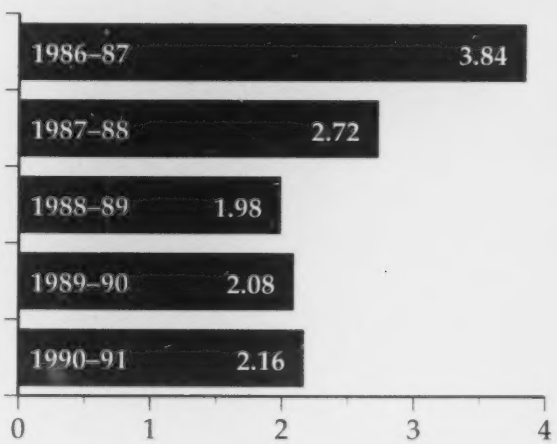
Debt to equity: indicates the degree of dependence on creditors, rather than owners, in providing funds to operate the business — in short, the amount of "trading on the equity." Total liabilities include current liabilities plus loans from banks, mortgages, notes and bonds payable in one year or more; capitalized lease obligations; and other non-current liabilities. Total equity consists of capital stock (common and preferred), paid-in capital surplus and retained earnings, less costs of treasury stock.

Debt to Equity



Times interest earned: the ratio of interest paid into net income before paying both income taxes and interest. The ratio suggests the firm's ability to cover long-term indebtedness. If the times interest earned value is sufficient, the firm should be able to fulfill its interest obligations.

Times Interest Earned



KEY FINANCIAL RATIOS BY COMPANY SIZE

Profit ratios were calculated for two categories of company size based on annual sales.

Less than $100 million
$100 million and over

Profit margins for firms with sales less than $100 million averaged 0.65 percent. Of that group, firms under $50 million were the most profitable, having a net profit margin of 1.28 percent of sales. Profit margins for firms with sales over $100 million exceeded one cent per dollar at 1.08 percent.

Return on total asset ratios were nearly identical for the two size groups. For smaller firms it was 3.76 percent and for larger firms 3.75 percent. The latter group has shown continual gains over the last couple of years.

Return on equity declined somewhat for the smaller firms to 12.84 percent. Again, however, it exceeded 20 percent for the larger firms. This is due partly to the higher debt-to-equity ratios in large firms, many of which borrowed heavily in recent years.

Key Financial Ratios by Company Size

Net Profit
Net Profit After Taxes and Extraordinary Items as a Percentage of Sales

	1988-89	1989-90	1990-91
Sales Under $100 Million	0.52%	1.00%	0.65%
Sales $100 Million and Over	0.80%	0.81%	1.08%

Return on Total Assets
Net Profit After Taxes as a Percentage of Total Assets

	1988-89	1989-90	1990-91
Sales Under $100 Million	2.71%	5.76%	3.76%
Sales $100 Million and Over	2.63%	2.89%	3.75%

Return on Equity
Net Profit After Taxes as a Percentage of Equity

	1988-89	1989-90	1990-91
Sales Under $100 Million	9.03%	16.89%	12.84%
Sales $100 Million and Over	20.37%	20.57%	22.95%

TAX RATES

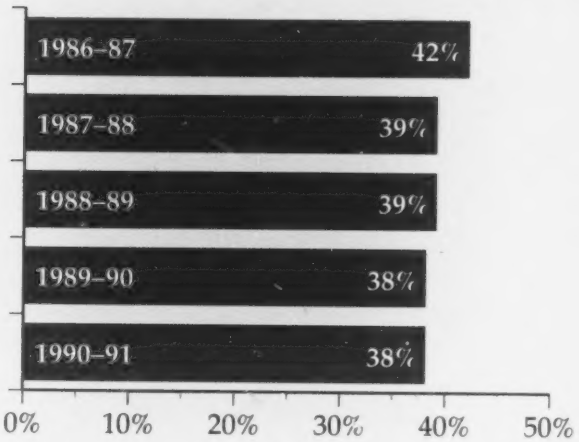
Income Taxes

The supermarket industry's effective income tax rate (including federal, state and local taxes) remained at 38 percent in 1990-91. This rate has remained fairly stable since 1987-88 when the impact of the Tax Reform Act of 1986 first a appeared on the industry's financial statements. Earlier in the decade, the industry experienced effective tax rates exceeding 40 percent.

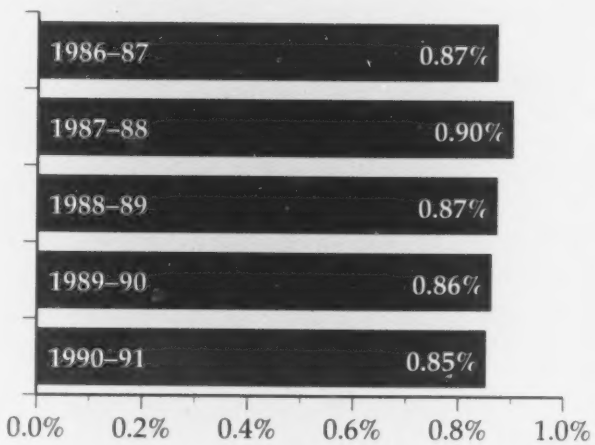
Wage-Based Taxes

Wage-based taxes have become a significant cost to the supermarket business. In 1990-91, supermarket employers' FICA tax payments (Social Security) averaged 0.85 percent of sales, comparable to the 0.86 reported in 1989-90. For the first time in four years, the industry's net income margin exceeded FICA payments. Unemployment tax payments fell to 0.10 percent of sales. Although this decline may be due in part to the survey sample, it may be an indication that supermarkets are maintaining sales with fewer employees.

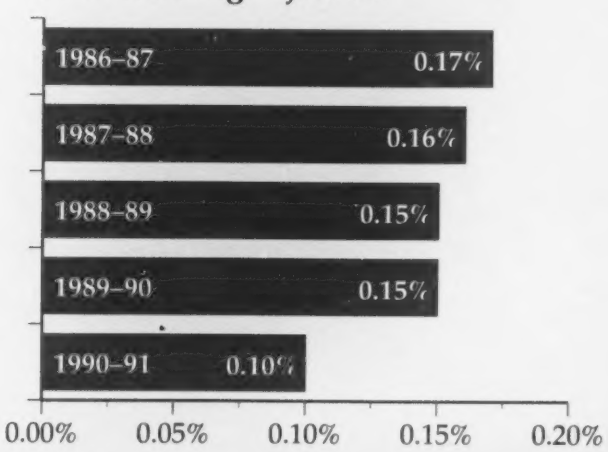
Effective Tax Rate



FICA Tax Payments as a Percentage of Sales



Unemployment Compensation Taxes as a Percentage of Sales



FINANCIAL STATEMENTS

Income Statement

The new decade brings a return to more familiar levels of profitability as more efficient operations overcome the legacy of debt from the 1980s.

Operating income rose to 2.61 percent of sales in 1990-91 compared with 2.45 percent a year earlier. This was the highest level ever recorded in the 19 years of the *Review.*

Interest expense remained near the relatively high level of the previous year, but seems to be reaching a plateau. Helping somewhat were lower overall costs of borrowing in financial markets.

Much of the current debt load is undoubtedly still being carried over from the years of extensive merger and acquisition activity. Many firms, however, may be investing in their stores rather than paying down debt — driven simply by intense competition and attractive returns on store investments.

Miscellaneous "other income" also remained near last year's level. Overall, income before taxes and extraordinary items increased to 1.56 percent on the strength of higher operating income.

Total taxes on income rose slightly in response to a higher level of income. Extraordinary items were virtually insignificant in the 1990-91 period — another indicator of the easing merger, buy-out and asset sale activity.

Overall, net income rose for the second straight year to 0.96 percent of sales, up from 0.86 percent in 1989-90, an encouraging sign for future profitability.

Balance Sheet

Assets

In 1990-91 current assets declined to 39.38 percent of total assets, about one percentage point below the level of the previous two years. Increases in inventory were more than offset by declines in accounts receivable and marketable securities. Cash fell slightly as a percentage of assets.

Total property and equipment, at almost three-fourths of assets, was at the highest level in 5 years. Apparently, companies recognize the importance of preserving the strong competitive position of their stores. The largest increase in the category was for buildings: that rose to 20.29 percent of assets in 1990-91 compared with 16.65 percent the previous year. Land increased for the fifth straight year. Fixtures and equipment as well as leasehold improvements showed moderate decreases.

After deducting reserves for depreciation, however, net property and equipment was down slightly (at 44.76 percent of assets) from last year.

Miscellaneous "other assets" gained ground, and at 15.86 percent of assets, are now about two-and-a-half times greater than five years ago. Much of this gain probably reflects balance sheet adjustments resulting from mergers, acquisitions and leveraged buy-outs.

Liabilities and Equity

The 1990-91 period marked the third year of relative stability on both sides of the balance sheet.

Total liabilities fell slightly to 80.09 percent of assets compared with 80.40 percent a year earlier. Some current liabilities were shifted to long-term debt, and deferred liabilities moderated.

Within the long-term debt category, bonds and debentures gained significantly to 16.06 percent from 10.89 percent and bank loans declined by a comparable amount. Although part of this shift from bank to bond indebtedness may be due to the sample, bond financing evidently has gained popularity.

No enormous changes appeared in the equity structure, a continuation of the new order begun in 1988-89, in which about half of the retained earnings was exchanged for long-term debt.

Consolidated Statement of Cash Flows

For the second year the *Review* included a Consolidated Statement of Cash Flows, which provides insights into short-term liquidity, long-term solvency, and operating performance.

Because of the difference in samples between years and the wide range of sources and uses of funds, more conclusions can be drawn from activities within a given year than changes between the two fiscal years.

The Statement of Cash Flows appears as a percentage of total cash at the beginning of the year. Once again, operating activities generated a positive cash flow. This was mostly the result of net income and depreciation. Increased inventories continued to more than offset increased accounts payable, which has implications for industry liquidity.

The cash generated by operations was mostly used to purchase plant, property and equipment, as well as retire some short- and long-term debt.

Overall, the operating activities provided the industry with the equivalent of 232.82 percent of the cash it had available at the beginning of the year, while investing and financing activities used the equivalent of 226.58 percent. The net result was a cash gain of over 6 percent over the year.

Statement of Changes in Stockholder Equity

This is also the second year the *Review* has reported changes in stockholder equity, providing an additional perspective on the equity side of the balance sheet. The data appear as a percentage of stockholder equity at the beginning of the year.

As with the cash flows, changes within a single year are more meaningful than those involving two fiscal years because of differing samples and wide variations in how companies manage equity.

Total stockholder equity increased 17.3 percent during fiscal 1990-91. Most of this change was due to net income increasing retained earnings. Sale of common stock and additional paid-in capital also contributed.

As a percentage of equity at year-end, however, preferred and common stock both decreased slightly. Retained earnings grew, and less treasury stock was outstanding.

Income Statement

Income Statement for Supermarket Companies (In Percentages; Sales = 100%)

	1986-87	1987-88	1988-89	1989-90	1990-91
Sales	100.00%	100.00%	100.00%	100.00%	**100.00%**
Cost of Sales and Operating Expenses	97.86	98.01	98.01	97.55	**97.39**
Operating Income	2.14	1.99	1.99	2.45	**2.61**
Interest Expenses	0.61	0.87	1.13	1.33	**1.35**
Other Income	0.20	0.38	0.25	0.31	**0.30**
Income Before Taxes and Extraordinary Items	1.73	1.50	1.11	1.43	**1.56**
Total Taxes on Income	0.74	0.59	0.43	0.54	**0.59**
Extraordinary Items (Net)	0.13	(0.14)	0.03	(0.03)	**(0.01)**
Net Income	1.12%	0.77%	0.71%	0.86%	**0.96%**

Balance Sheets

End-of-Year Balance Sheet for Supermarket Companies
(In Percentages; Total Assets = 100%)

	1986-87	1987-88	1988-89	1989-90	1990-91
Current Assets					
Cash	5.66	5.10	4.93	4.77	**4.34**
Accounts Receivable	4.24	3.67	4.07	4.41	**3.89**
Marketable Securities	3.52	2.32	1.70	1.77	**1.20**
Inventory (Note A)	27.35	30.95	26.01	26.69	**27.56**
Other Current Assets	3.16	5.28	3.76	2.78	**2.39**
Total Current Assets	43.93	47.32	40.47	40.42	39.38
Property and Equipment (Note B)					
Land	3.59	3.74	4.19	4.30	**4.70**
Buildings	20.95	19.17	18.47	16.65	**20.29**
Fixtures and Equipment	38.56	40.71	38.94	41.11	**39.79**
Leasehold Improvements	10.73	9.36	9.92	10.89	**10.08**
Total Property and Equipment	73.83	72.98	71.52	72.95	**74.86**
Reserves for Depreciation	(30.94)	(29.50)	(26.48)	(27.01)	**(30.10)**
Net Property and Equipment	42.89	43.48	45.04	45.94	44.76
Other Assets	13.18	9.20	14.49	13.64	**15.86**
Total Assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note A: Some firms value at least part of their inventory on a LIFO (last-in, first-out) basis.

Note B: Property under capitalized leases is included in the appropriate property categories based on the type of property leased.

End-of-Year Balance Sheet for Supermarket Companies
(In Percentages; Total Assets = 100%)

Current Liabilities	1986-87	1987-88	1988-89	1989-90	1990-91
Notes Payable	5.25%	4.63%	5.33%	4.56%	3.69%
Accounts Payable	19.00	18.38	18.92	19.46	19.71
Income Taxes Payable	1.69	0.85	0.86	0.88	0.68
Other Current Liabilities	12.97	12.76	9.08	9.61	9.86
Total Current Liabilities	38.81	36.62	34.19	34.51	33.94
Long-Term Debt					
Mortgages	10.07	6.69	7.49	7.07	8.78
Bank Loans	5.18	7.45	18.32	15.96	10.01
Bonds and Debentures	4.37	8.18	10.54	10.89	16.06
Capitalized Lease Obligations	5.36	5.39	5.01	5.37	5.09
Other Non-Current Liabilities	2.41	2.33	2.95	3.28	3.75
Total Long-Term Debt	27.39	30.04	44.31	42.57	43.69
Deferred Liabilities	3.19	4.22	3.45	3.32	2.46
Total Liabilities	69.38	70.88	81.95	80.40	80.09
EQUITY					
Common Stock Outstanding on Proprietorship	3.74	3.44	2.48	2.48	2.80
Preferred Stock Outstanding	1.77	1.25	1.34	0.68	0.79
Paid-in Surplus	4.27	4.65	4.45	4.65	5.09
Retained	24.39	22.59	11.81	13.47	12.53
Treasury Stock	(2.95)	(2.81)	(2.03)	(1.67)	(1.30)
TOTAL EQUITY	30.62	29.12	18.05	19.60	19.91
TOTAL LIABILITIES AND EQUITY	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows for Supermarket Companies
(In Percentages; Cash at Beginning of Year = 100%)

CASH FLOWS FROM OPERATING ACTIVITIES	1989-90	1990-91
Net Income	81.68%	81.80%
Adjustments to Reconcile Net Income to Net Cash Provided by Operations		
Depreciation and Amortization	163.53	131.33
Deferred Income Tax	0.65	(0.31)
Other Adjustments	22.19	19.73
(Increase) Decrease in:		
Trade Accounts Receivable	(10.23)	(0.11)
Inventories	(54.69)	(33.57)
Prepaid Expenses	1.11	1.73
Other Current Assets	8.84	0.05
Increase (Decrease) in:		
Trade Accounts Payable	43.27	24.34
Accrued Expenses	18.43	6.13
Income Taxes Payable	4.79	0.53
Other Current Liabilities	6.10	1.17
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	285.67%	232.82%

Consolidated Statement of Cash Flows for Supermarket Companies
(In Percentages; Cash at Beginning of Year = 100%)

CASH FLOWS FROM INVESTING ACTIVITIES	1989-90	1990-91
Net Sales (Purchase) of Plant, Property and Equipment	(222.65)%	(156.45)%
Net Sale (Purchase) of Investment	(28.25)	(4.47)
Other Investing Activities	8.44	(4.13)
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	(242.46)	(165.05)%
CASH FLOW FROM FINANCING ACTIVITIES		
Increase (Decrease) in Short-Term Borrowing	9.39	(20.89)
Increase (Decrease) in Long-Term Debt	15.21	(17.14)
Increase (Decrease) of Capital Lease Obligations	(14.14)	(6.48)
Proceeds From Issuing (Purchase) of Common Stock	8.21	0.20
Dividends Paid	(29.98)	(24.67)
Other Financing Activities	(41.57)	7.45
NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES	(52.88)	(61.53)%
NET INCREASE (DECREASE) IN CASH	(9.67)	6.24
CASH AT BEGINNING OF YEAR	100.00	100.00
CASH AT END OF YEAR	90.33%	106.24%

Statement of Changes in Stockholders' Equity

Statement of Changes in Stockholders' Equity for Supermarket Companies
(In Percentages; Total Stockholders' Equity at Beginning of Year = 100%)

Beginning of Year	**1989-90**	**1990-91**
Preferred Stock	1.81%	5.38%
Common Stock	15.81	14.82
Additional Paid-In Capital	36.59	30.93
Retained Earnings	47.50	59.37
Treasury Stock	(2.29)	(9.23)
Other	0.58	(1.27)
Total Stockholder Equity	100.00	100.00
Changes During Year		
Preferred Stock	(0.49)	(0.11)
Common Stock	0.31	1.14
Additional Paid-In Capital	3.76	1.77
Net Income	14.55	23.96
Dividends	(3.42)	(6.17)
Treasury Stock	0.41	(0.36)
Other	(1.63)%	(2.93)%
Total Change	13.49	17.30

Statement of Changes in Stockholders Equity for Supermarket Companies
(In Percentages; Total Stockholders' Equity at Beginning of Year = 100%)

End-of-Year Balance	1989-90	1990-91
Preferred Stock	1.32%	5.27%
Common Stock	16.12	15.96
Additional Paid-In Capital	40.35	32.70
Retained Earnings	57.28	74.33
Treasury Stock	(1.88)	(9.59)
Other	0.30	(1.37)
Total Stockholder Equity	113.49%	117.30%

Percentage of Equity at End of Year	1989-90	1990-91
Preferred Stock	1.16%	4.49%
Common Stock	14.20	13.61
Additional Paid-In Capital	35.56	27.88
Retained Earnings	50.47	63.36
Treasury Stock	(1.65)	(8.18)
Other	0.26	(1.16)
Total Stockholder Equity	100.00%	100.00%

APPENDIX

Changes in Accounting Rules

Some data in the *Review* were affected by major accounting changes. In December 1987, the Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting (SFAS) No. 96 "Accounting for Income Taxes." SFAS No. 96 changed the manner in which deferred taxes are recognized within financial statements, causing changes in the use of net operating loss carryforwards, which are recorded as extraordinary items. Ten percent of the companies responding to this survey implemented SFAS No. 96 in fiscal year 1990-91. For those companies, the effect on income was mixed, as was the need for additional accounting and tax services.

The FASB also instituted a rule regarding subsidiaries. SFAS No. 94 requires a parent company to include in its financial statements on a consolidated basis all investments in which it has more than a 50 percent voting interest. As a result, 1 percent of the firms surveyed for this year's *Review* included previously unconsolidated subsidiaries in their financial statements.

Impact of the Tax Reform Act of 1986

The sweeping changes of the Tax Reform Act of 1986 have had many ramifications for the supermarket industry. The Act decreased the top corporate tax rate from 46 percent to 34 percent in 1988. The old and new rates were blended in 1987. The lower rates improved the profits for 27 percent of the companies responding to the survey. Most indicated, however, that the lower tax rates were essentially neutralized by other provisions.

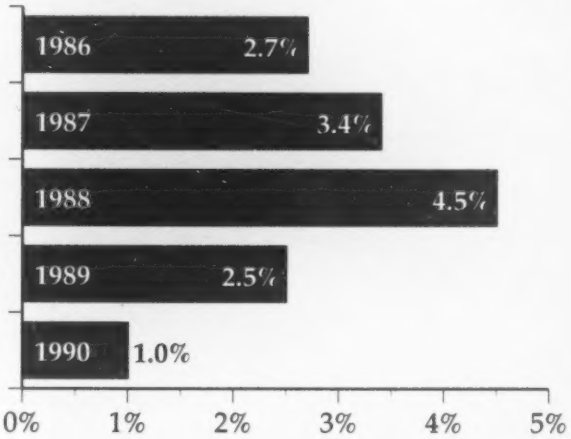
The U.S. Economic Environment

After almost eight years of expansion, the U.S. entered a recessionary period in late 1990. Economic growth, as measured by the Gross National Product (GNP), had been slowing since the peak in 1988. The GNP grew at only a 1 percent rate in 1990, which was less than half the rate of 1989.

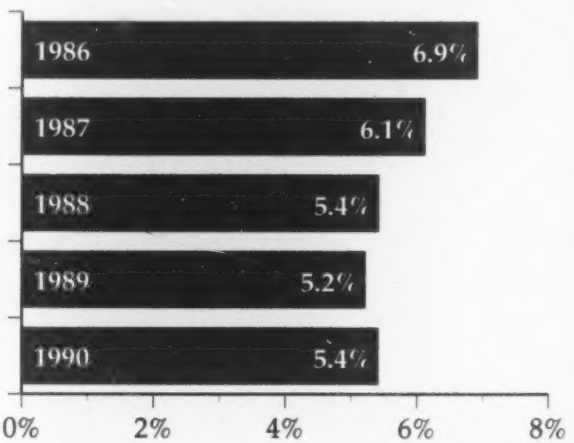
Unemployment in the United States reached an average of 5.4 percent in 1990, which was only slightly higher than the previous year's 5.2 percent rate. Still, by December of 1990, the unemployment rate had reached 6 percent and was still climbing. Despite higher unemployment figures, demographic trends still made search for employees a challenge.

General consumer inflation, as measured by the Consumer Price Index (CPI) for urban consumers, averaged 6.1 in 1990 — about 1.5 percentage points higher than the stable rates of 1987-89. The inflation rate for food consumed at home remained at 6.5 percent, close to the total rate of inflation.

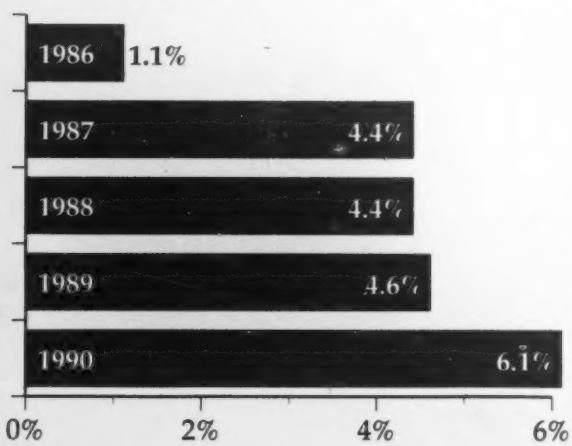
U.S. GNP Change



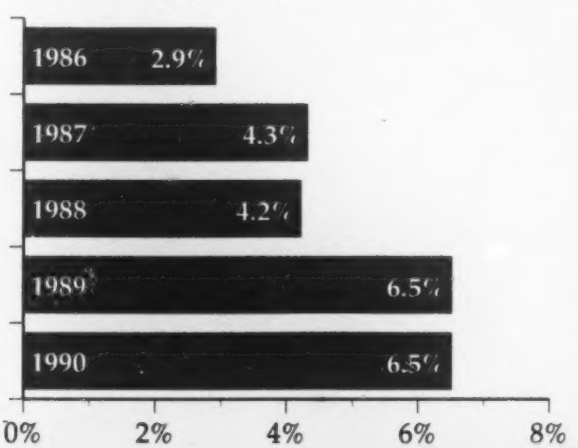
U.S. Unemployment Rate



CPI Change for All Urban Consumers



CPI Change for Food at Home

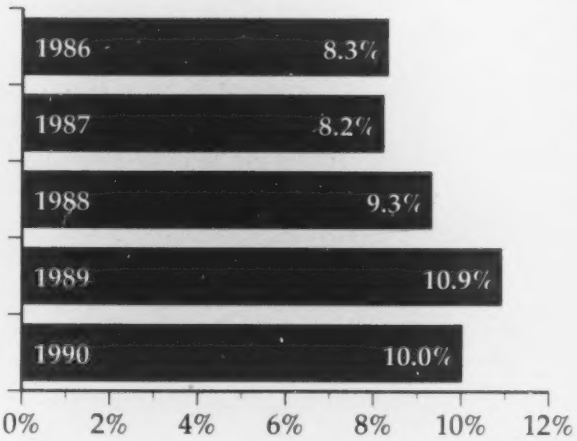


The annualized prime interest rate for 1990 was 10 percent. This effort to stimulate the economy (despite higher inflation) represented nearly a full percentage point decline from the previous year.

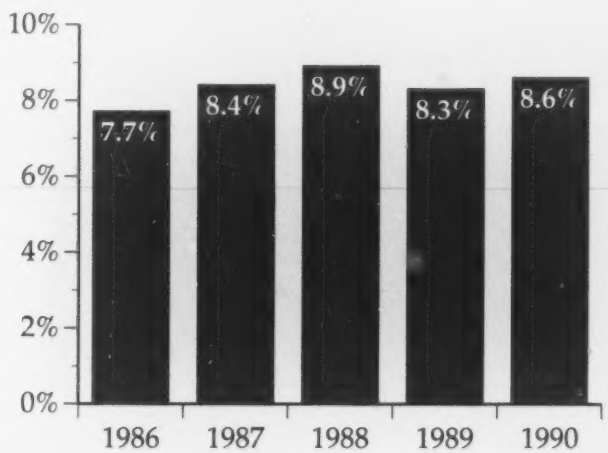
Long-term government bonds continued to offer a steady yield. For 1990 as a whole, the yield averaged 8.6 percent, which was only slightly higher than the 8.3 percent rate for 1989. This seems to indicate that confidence remains steady for future U.S. financial stability.

The stock market had a roller-coaster year. Overall, though, it gained 7 percent from the 1989 level. Corporate profits changed little from the previous year.

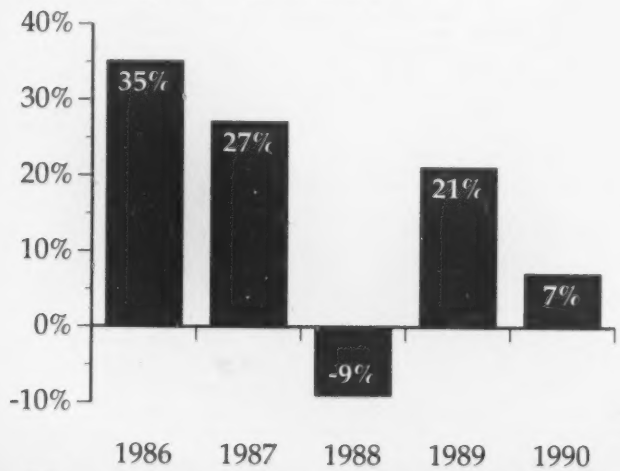
Prime Interest Rate



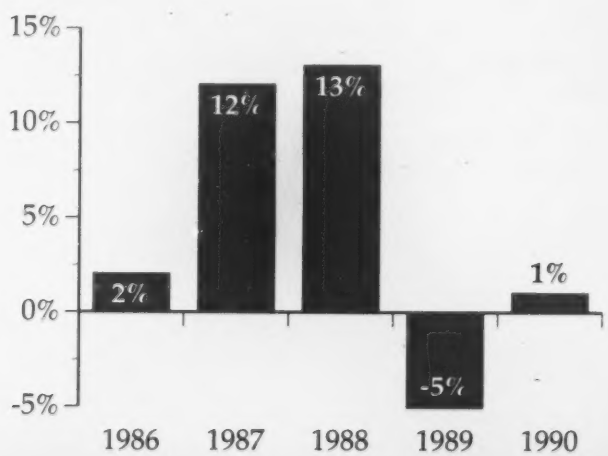
Average Yield of Long-term U.S. Treasury Bonds



Stock Market Performance
(Percentage Change in DJIA)



Corporate Profits
(Percentage Change)



Selected Income Statement Captions

Sales represent all sales reported by supermarket companies.

Cost of Sales and Operations Expenses includes the cost of merchandise sold by supermarkets, plus all other expenses to operate stores, distribution facilities and the central offices.

Interest expense includes all interest charges on short- or long-term debt and on capital lease obligations.

Other income includes all non-operating income (e.g., interest income, gain on sales of securities).

Total taxes on income are the federal and state taxes imposed on the supermarket companies based on net income as reported to the government.

Extraordinary items include all infrequent or unusual financial events, including net operating loss carryforwards to the current period.

Selected Balance Sheet Captions

Inventory includes all goods held for sale by supermarket companies. Some firms value inventories on a first-in, first-out basis (FIFO). Others use a last-in, first-out basis (LIFO) valuation. The *Review* records the inventories as reported by the surveyed companies.

Other current assets include those (except inventory) with a defined life of less than one year (e.g., cash accounts receivable, prepaid expenses and short-term investments).

Net property and equipment covers all property, plant and equipment, including capital leases less accumulated depreciation and amortization.

Other assets include all assets (except property and equipment) with a defined life of more than one year (e.g., investments in other companies, long-term receivables).

Current liabilities include all debts and expenses due within one year (e.g., accounts payable, accrued liabilities, current portions of long-term debt).

Long-term liabilities include all debt and expenses due after one year (e.g., long-term debt, capital lease obligations, deferred taxes). Equity is the difference between total assets and total liabilities. It typically comprises stock, paid-in surplus and retained earnings less treasury stock.

Methodology

The *Review* relied on two primary sources of data: a survey mailed to the FMI members and annual 10-K reports filed with the Securities and Exchange Commission (SEC).

For 1990-91, much of the financial data came from the companies that responded to the survey. Data were not used for any company with sales of less than $2 million per store. Only firms with at least 50 percent of revenue generated from supermarket operations were included in the sample.

In all, data were collected from 129 companies that operate 12,583 supermarkets, accounting for $160 billion in sales. The sample included 68 companies with sales of less than $100 million and 61 or more with sales of $100 million.

The sample size in this survey varies from year to year, especially among the smaller firms. Some annual changes in the profitability may be due to a change in the companies that respond.

The *Review* sampled supermarket companies. These may obtain some revenues from sources other than supermarket operations. In the 1990-91 sample, companies with sales of less than $100 million generated 98.0 percent of their revenues through supermarkets. On average, the firms with sales of at least $100 million generated 92.4 percent of their revenues from supermarkets.

Financial data were collected for company fiscal years ending between April 1, 1990, and March 31, 1991. To develop the industry averages, data from each respondent were weighted by the firm's annual sales. Means were calculated for each category and weighted using data from the 1987 Census of Retail Trade. The industry average is based on a weighted average of two groups: companies with sales below $100 million and those with sales of at least $100 million. The census data appear in the table on the following page. The stratification and weighting of data help eliminate year-to-year changes that result from changes in the survey sample.

This method of developing average financial estimates for supermarket companies provides the best published measurement of trends in the supermarket industry's capital structure. It does not, however, eliminate all problems caused by changes in sample size and varying fiscal year end-points, which are inherent in a survey of this type.

The weightings from the Census of Retail Trade are not reflected in each annual sales category. In the averages for each annual sales breakout, the individual data are weighted only by the companies' annual sales.

Supermarket Population Based on 1987 Census of Retail Trade*

Firm Sales (millions)	Percentage of Total Firms	1987 Sales	Percentage of Total Sales
Less than $100	97.3%	$68,099,426	27.63%
$100 and over	2.7%	$178,409,579	72.37%
TOTAL	100.0%	$246,509,005	100.0%

Results for Annual Sales Used in Weighting All-Industry Data

Firm Sales (millions)	Net Profit	Return on Total Assets	Return on Equity
Less than $100	0.65%	3.76%	12.84%
$100 and over	1.08%	3.75%	22.95%
Industry Average	0.96%	3.75%	20.16%

FMI Business Building Publications

If you need data, facts or background information about key food distribution issues, FMI's research publications may be just what you're looking for. Use the form on the following page to order today!

Consumer Research

How Consumers are Shopping the Supermarket — NEW!
This new study provides valuable data on consumer shopping patterns, including how shopping behavior varies by store size and how customers shop different departments of a supermarket.
Price: FMI Members: $15
Non-members: $30

The Service Advantage-1991: How Consumers Evaluate Service in Their Supermarket Experience — NEW!
This new report addresses consumer attitudes and expectations regarding service in supermarkets.
Price: FMI Members and Non-members: $30

Consumer Attitudes Toward Supermarket Pharmacies — NEW!
This recent study focuses on the changing retail pharmacy environment, including consumer perceptions of the relationship between the pharmacy, health and beauty care products (HBC) and the overall store.
Price: FMI Members: $15
Non-members: $30

Trends: Consumer Attitudes & the Supermarket 1991
Price: FMI Members: $25
Non-members: $50

The Green Shopping Revolution: How Solid Waste Issues are Affecting Consumer Behavior
Consumer attitudes on food shopping and solid waste.
Price: FMI Members and Non-members: $30

Dinnertime USA
How to cash in on the dining-at-home trend.
Price: FMI Members and Non-members: $30

Targeting Food Customers
A comprehensive guide to using secondary research for the smaller or mid-size retailer.
Price: FMI Members: $15
Non-members: $30

Shopping a la Cart: The Changing Environment of the Takeout Food Market
A report that examines the attitudes and behaviors of takeout food customers.
Price: FMI Members: $15
Non-members: $30

Financial Studies

Operating Results of Independent Supermarkets
A managerial tool to help retailers evaluate store operating results.
Price: FMI Members: $25
Non-members: $50

Profitrak Software Package for Independent Operators — NEW!
This easy-to-use software package can calculate valuable profit ratios and productivity figures.
Price: FMI Members: $125
Non-members: $175

Annual Financial Review
Annual report for the supermarket industry.
Price: FMI Members: $15
Non-members: $30

Operations Review
Quarterly operations and productivity reports.
Price: FMI Members: $25
Non-members: $50

Industry Performance

Food Marketing Industry Speaks 1991
Summary of results from four different surveys: retail and distributon center, operations, energy and refrigeration issues and prepared foods.
Price: FMI Members: $20
Non-members: $40

Detailed Tablulations from "Food Marketing Industry Speaks 1991"
Detailed results from the "Speaks" surveys. Data are delineated by company size, geographic region and other measures as appropriate.
Price: (Includes "Speaks" report)
FMI Members: $25
Non-members: $50

Other Industry Studies

Micro-Merchandising: Targeted Consumer and Category Merchandising — NEW!
This new report defines micro-merchandising's value to food retailers and describes how micro-merchandising can be used as a valuable tool in developing successful consumer targeting strategies.
Price: FMI Members: $15
Non-members: $30

Front-End Electronic Marketing: Frequent Shopper and Other Programs — NEW!
A companion to *Perspectives on Electronic Marketing*, this primer focuses on marketing systems at the POS.
Price: FMI Members: $15
Non-members: $30

Perspectives on Electronic Marketing
First in a series of reports on implementing electronic marketing programs.
Price: FMI Members: $15
Non-members: $30

The Annual Business Planning Meeting
Practical suggestions and guidelines for developing an effective annual business meeting.
Price: FMI Members and Non-members: $15

Facts About Store Development
This annual report examines new store costs and size, store formats, remodelings and rental and leasing arrangements.
Price: FMI Members: $15
Non-members: $30

Management Compensation Study for Wholesalers and Large Retailers
This annual study provides the benchmarks needed to properly administer compensation programs.
Price: FMI Members: $300
Non-members: $600

FOOD MARKETING INSTITUTE

1750 K Street, NW Washington, DC 20006
202/452-8444 TELEX: 892722 FMI USA WSH
FAX: 202/429-4519